

**THE INDONESIAN JOURNAL OF
BUSINESS ADMINISTRATION**
Vol. 2, No. 9, 2013:1084-1091

**STRATEGIC REPOSITIONING FOR CONVECTION BUSINESS
CASE STUDY: AR VENDOR**

Pratisara Satwika Anindita and Mohamad Toha
School of Business and Management
Institute Teknologi Bandung
pratisara@sbm-itb.ac.id

Abstract— *The study aims to determine suitable position and strategy in order to reach superiority in convection business based on the company strengths and weaknesses. A study conducted in late 2012 at AR Vendor, a home-based convection company which focus on the t-shirt screen printing service. In response to the issue of the below average profit margin, the company has to rethink their position and strategy in handling the convection business environment. While AR Vendor business may growth in accordance to the population and economy growth, AR Vendor has to aware about shifting from manual to digital screen printing technology. Moreover, AR Vendor also has to pay attention to the reseller-customer preference in doing backward integration. From its internal environment, it also known that AR Vendor still did not optimizing its marketing activity and employees performance. Alternative of strategies was gathered through Porter's generic competitive strategies, which cost-leadership strategy was chosen as the most suitable strategy by using QSPM. Through business model, customer segments that suitable with suggested strategy is them whom prioritize the quality, low price, punctuality, and customization. The cost leadership strategy also supported by business model that encourage the profit enhancement through economies of scale and cost efficiency.*

Keywords: strategic positioning, strategic management, QSPM, business model

1. Introduction

Clothing industry is an industry which will continue to develop, ranging from fiber business, weaving business, printing business, etc. One kind of business that develops in clothing industry is called convection business. Convection is a business that transform the fabric until it turn into clothes. The growth of convection business in Indonesia was triggered by the emergence of small boutiques and companies who order uniforms for their specific events. The development of convection business in Indonesia is also supported by the internet technology advances. Convection business which previously limited for particular regions, today it can expands the business scope into the whole world by using internet.

Although engaging in convection business sounds tempting, there are some challenges in this business which must be dealt. First, the sustainability of a convection business depends on the total quantity ordered by the buyers. Therefore, a convection company must ensure that in every month the company should get the order at some levels which not only enough to cover all expenses but also can generate profit more than its cost of capital. Second, since there are not many differences that can be offered from convection products, a convection company must be able to position itself in order to sustain and success in this business.

AR Vendor is a company engaged in clothing industry which focuses in the convection business. AR Vendor was founded in 2010 by Reza Fahmi Achmadi and his big brother as initiator and executor, and one of his friends who agree to invest in this company. This business idea emerged when Reza was disappointed with the services of some existing convection company. At that time, the quality of the t-

shirt ordered by him did not meet his expectation. Moreover, the completion time of some convection company was often delayed.

The scope of AR Vendor business can be seen from three different perspectives. First, in terms of product scope, AR Vendor is focusing their offer in the t-shirt screen printing service. This is one of their uniqueness that distinguishes AR Vendor from the other convection companies which offer wider variety of product. Second, in terms of market scope, AR Vendor has a wide customer segments. AR Vendor accepts the orders from end-user customers (B2C) and reseller customers (B2B). Last, in terms of area coverage, since AR Vendor production activities are in East Jakarta, so that, the main AR Vendor area coverage is within the Jakarta Province. Furthermore, in line with the development of technology, AR Vendor also covers order from remaining province in Indonesia and all other countries.

During the first-seven quarters, AR Vendor has experienced of increasing and decreasing of sales quantities and has gotten no more than 1800 piece of t-shirt for each quarter, while in fact; AR Vendor may produce around 3000 piece of t-shirt for each quarter. Moreover, AR Vendor gathered profit margin that no more than 3% of their revenues, while the average of convection companies can gather profit margin around 10% of their revenues. Therefore, AR Vendor has to able to position itself in order to survive and stand out compare to its competitors. This study then will be limited to answer four research questions: study about AR Vendor actual external and internal environment, determine the suitable position, strengthen the new position using business model, and the last, determine the action plan.

2. Business Issue Exploration

A. Conceptual Framework

The conceptual framework of strategic management will be used to find effective way to solve the issue. Based on Wheelen and Hunger, there are four components of process in strategic management: environmental scanning, strategy formulation, strategy implementation, and evaluation and control. The study is limited until the strategy implementation. The environmental scanning assists AR Vendor to know on how well the company had positioned its internal strength to take the external opportunities. Several strategy alternatives based in Porter's generic competitive strategies will be screened using QSPM method. Best strategy alternatives will be explained more using business model.

B. Method of Data Collection and Analysis

There are several method used to gather important information for this study. The first method to collect the information is through literature. The writer used some books which discuss the theory about strategic management, strategic positioning, and business model. This study also supported by several data collection techniques which consist of field observation, interview, and market questionnaires. Field observation was conducted by visiting the AR Vendor location in order to know directly about AR Vendor daily operational management. AR Vendor owner interview was conducted to get better picture about AR Vendor internal environment. In addition, the market questionnaire aims to know better about the market needs and the way to grab them. However, in doing this research, the writer found difficulties in searching the right respondents, so that there was only 21 of t-shirt reseller and 54 of t-shirt pre-order users.

C. Analysis of Business External Situation

Based on the PEST analysis, there are four political and legal factors which influential to convection business: environmental policy, legal entity, UMR, and logistic policy. Since AR Vendor has no legal entity as limited liability company (PT), AR Vendor has to aware about the organization or company tendency in inserting legal entity as tender requirement. AR Vendor also has to pay attention to the DKI Jakarta government tendency in determining the increment of the minimum wage. The last, partnering with logistic company, AR Vendor has to observe the logistic company policy including their operating hours, length of time required to deliver the product, fee charged, and delivery guarantees.

AR Vendor also has to monitor the economic factors of economic growth and inflation rate. AR Vendor has to aware about the GDP fluctuation, since based on BI data, GDP in textiles was once declining between year 2006 and 2007. In addition, the selling price of AR Vendor service mainly depends on

the price of the raw material used, so that AR Vendor has to monitor the rate of inflation in the clothing industry.

The social factors that may affect the convection business consist of population growth, lifestyle, and environmental concerns. Based on BPS last survey in 2010, population in Indonesia has reached 237 million people. Along with the development of internet technology and the growth of facilities to access it, more Indonesian people are taking advantages not only by utilizing it to access all kinds of information but also using it as sale and purchase medium. However, AR Vendor has to aware about the environmental issues related to the convection business which including the waste of convection operations and about cotton which known as material that are not environmentally friendly

The last, AR Vendor has to aware about internet and digital screen printing development. The presence of social media on the internet helps in changing the organization marketing pattern from vertical to horizontal which helps in communicate with society and widen the market through sharing among the social media users. Organization can also utilize the internet as a platform to increase the organization's visibility and performance. AR Vendor also has to aware about digital screen printing development which might change the screen printing business become easier and faster.

Based on Porter five forces framework, it can be seen that the threat of new entrants in convection business is medium. One of the reasons is because the capital requirement to enter the business is relatively low. Although the access to buyer is not so easy (medium), convection business can be easily getting detail information about several supplier choices through internet. Moreover, the barriers are become easier since the product differentiation is relatively low. There is also no protection against manual convection technology and there is no need of special skills and knowledge to enter home-based convection business.

The buyers in convection business have several convection company options which has no differentiation in their products and services offering. The buyers of convection business who are not satisfied with a convection company can move relative easy to another convection company with a little switching cost for coordination. They also pay less attention to the convection company brand. Moreover, since AR Vendor once was disappointed to the existing convection company and inspired to develop its own company, AR Vendor also has to aware about other parties who inspire to do the same. Therefore, it can be conclude that the bargaining power of buyers is relatively high.

Since the fabrics used by convection companies are fairly standard intermediate product, many fabric shops are eligible to be the supplier of convection companies; while for the screen printing inks, there are only a few shops who offer particular screen printing ink that AR Vendor need. Moreover, although the cost incurred in switching from one to another supplier is quite small, AR Vendor wants to establish long-term partnership with current supplier in order to maintain its product quality. Therefore, it can be conclude that the bargaining power of suppliers is medium.

The main substitute in this business is digital screen printing company. Although digital screen printing company offer faster service than manual screen printing company, buyers who order large quantity of digital screen printing product with the same design will suffer loss. It is because the digital screen printing company tends to set a fixed price for each product; while in manual screen printing company, greater quantity of order will result on the more negotiable price. However, the speed of technological advancement offers opportunities to get cheaper and better digital screen printing technologies. Therefore, it can be conclude that the threat of substitute products and services is medium.

The intensity of competitive rivalry in convection business is relatively high. Currently, there are only several convection companies who can offer differentiations in their products and services. The existing convection companies also offer competitive price without begin the price war and ruin the market price. In addition, similar to the barriers to entry, since the initial investment needed in

developing convection company is relatively low, the barriers to exit from this business is also relatively low. It is because.

D. Analysis of Business Internal Situation

Internal situation come from the value chain analysis can be divided into primary and supporting activities. From the primary activities, first, AR Vendor's inbound logistic activities consist of material handling, excess material warehousing, and defective material returning. AR Vendor buys the exact number of materials right after there is any customer order. However, AR Vendor undertakes warehousing activity in case there are excess materials in their purchases. Moreover, materials which not meet the AR Vendor specification will be return to the supplier accompanied with replacements request.

AR Vendor operation activities consist of design editing, material cutting, screen printing, sewing, quality control, and packaging. Since AR Vendor produces the exact number of product as the customer order, AR Vendor does not have final products warehousing system. Therefore, remaining outbound activity that AR Vendor handled is the product delivery. In addition, AR Vendor also provides product adjustment, defect product replacement, and marketing assistance as their additional services.

AR Vendor marketing and sales activities consist of advertising, sales channel management, and order processing management. Advertising is conducted by offline: word-of-mouth, magazine, partnership proposal; and by online: tumblr, twitter, and kaskus. Sales channel management is conducted with and without meeting in person with AR Vendor representatives. The sales channel without meeting with AR Vendor may come through phone, email, Blackberry messenger, or by sending direct message to one of AR Vendor online marketing lines.

The one that should be highlighted is currently AR Vendor has not optimize its online activities. From the twitter it can be seen that AR Vendor follower is only around 100 while the posting is only around 300. AR Vendor thread in kaskus is also in the archive section. It means that kaskus categorized it as non active thread; and the last, AR Vendor only used its official tumblr as its portfolio instead of optimizing it as selling media. AR Vendor order processing management can be seen as follows.

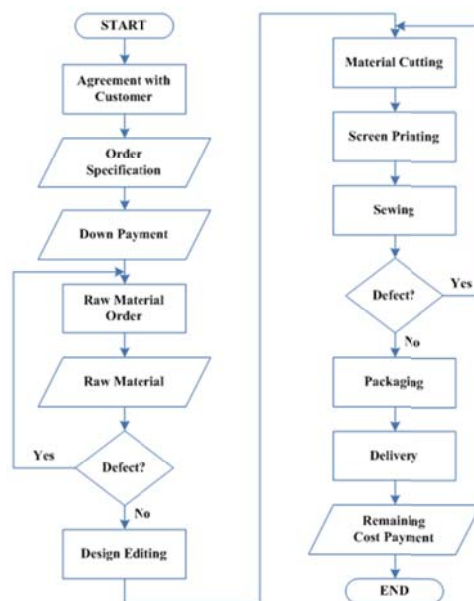


Figure 1 AR Vendor Order Processing Management

AR Vendor procurement activities, in order to minimize the capital requirements, AR Vendor chose to rent the house instead of buying it. The purchase of these fixed assets was carried since the AR Vendor establishment by using the money invests by AR Vendor owner's friend and the money from

bank loan. The raw materials will be bought right after there is order agreement along with the down payment. The raw material purchase is made by ordering through phone calls and will be delivered right away by the supplier to the AR Vendor place through logistic company services.

In the technology development, the technology development in AR Vendor production activity will focus on the manual screen printing technology. In the human resource management, in searching of the prospective employees, AR Vendor usually used its employee's networks. After the candidate passed the simple interview held by AR Vendor, then they will get a briefing and directly handle the position for a month as probation. In the end of the probation, if AR Vendor satisfied with the job done by the prospective employee, then they will get the permanent job. Moreover, AR Vendor also use temporary worker during the high order. The last, There are three kinds of management activities which support the entire value chain: order management, quality management, and partnership management.

Supporting the value chain, AR Vendor also equip with several resources. The physical resources of AR Vendor consist of house (rents) and several machinery and office equipment. As for financial resource, AR Vendor capital mostly came from bank loan, while some of them came from the AR Vendor owner relatives. For the human resource, currently AR Vendor personnel have reach ten persons who consist of two persons as the owner, and eight persons as their employees. In addition, AR Vendor intellectual resources consist of screen printing knowledge, partnership, brand awareness, and several marketing tools.

3. Business Solution

E. Quantitative Strategic Planning Matrix (QSPM)

QSPM will be used to evaluate the business strategy alternative based on Porter generic competitive strategies. The weight of external and internal factors along with its attractiveness with each of strategies comes from the result of market research and interview with AR Vendor owner. The external and internal factor will be weighed from 0.0 (not important) to 1.0 (very important). Attractiveness of each external and internal factor to each strategy, then, will be scored from 1 (not attractive) to 4 (highly attractive). Total attractiveness (TAS) of each external and internal factor can be calculated by multiplying the weight and its attractiveness score (AS). The appropriate strategy for the company is the strategy alternative with the highest sum of total attractiveness. Here is the QSPM calculation for AR Vendor business strategy:

Table 1 QSPM for AR Vendor Business Strategy

	Weight	Cost leadership strategy		Differentiation strategy		Focus strategy	
		AS	TAS	AS	TAS	AS	TAS
Strengths			3.25		2.75		2.75
S1: Variety screen printing inks	0.25	3	0.75	1	0.25	1	0.25
S2: High quality services	0.35	3	1.05	4	1.4	4	1.4
S3: Partnership	0.25	4	1	2	0.5	2	0.5
S4: Customer relationship	0.15	3	0.45	4	0.6	4	0.6
Weaknesses			2.2		2.55		2.7
W1: Easy-to-imitate service	0.35	3	1.05	1	0.35	1	0.35
W2: Innovation	0.25	2	0.5	4	1	4	1
W3: Brand awareness	0.15	1	0.15	3	0.45	4	0.6
W4: Installment	0.25	2	0.5	3	0.75	3	0.75
Opportunities							
O1: Purchasing power growth	0.35	3	1.05	4	1.4	4	1.4
O2: Boutique and online shop growth	0.35	4	1.4	3	1.05	2	0.7
O3: Internet as marketing tool	0.3	4	1.2	3	0.9	3	0.9
Threats					0		
T1: Legal entity	0.1	2	0.2	1	0.1	1	0.1
T2: Digital screen printing	0.3	1	0.3	1	0.3	1	0.3
T3: Competitor pressure	0.4	3	1.2	2	0.8	2	0.8
T4: Customer vertical integration	0.2	2	0.4	1	0.2	1	0.2
Sum Total Attractiveness Score			2.6		2.15		1.65

Based on the table QSPM above, it can be seen that cost leadership strategy obtain the highest of sum of total attractiveness score. This score also reflects the strategic positioning based on Vasconcellos. It

is better for AR Vendor to adopt cost leadership as their strategy because the cost leadership strategy allows AR Vendor to reach superiority by maximizing its strengths and minimizing its weaknesses.

F. Current-Cost Leadership Business Development

After determine that the cost leadership is the appropriate strategy for AR Vendor, then, the current AR Vendor business model will be compare in order to know the factors that should be improved. Customer segments that suitable with cost leadership strategy are them whom prioritize the quality, low price, punctuality, and customization. The cost leadership strategy was also supported by business model that encourages the profit enhancement through economies of scale and cost efficiency. In the channels section, it is better for AR Vendor to improve both its offline and online marketing activities to reach high order, while in the customer relationship, as an addition for the existing customer relation, AR Vendor has to maintain its after sales communication with regular customer.

The key activities are discussed using the value chain analysis. Since the main concern is about the marketing to get higher profit through increasing the sales, AR Vendor must start to have monthly target of marketing along with optimization its offline and online activities. For the supporting activities, AR Vendor has to highlight the HR management by hiring employee who focus in the marketing activities and reduce the temporary worker by optimizing the permanent employee productivities. Moreover, supporting the cost leadership strategy, AR Vendor also has to perform cost efficiency in each of its activities.

The rest of business model factors: key resources, key partnership, revenue stream, and cost structure, along with the business model factors that already mention above and the comparison with the current business model can be seen in the table below.

Table 2 Current-Cost Leadership Business Development

	Current Business Model	Cost Leadership Business Model
Customer segments	People / organization with the needs of fine quality screen printing service along with variety customization. Demographically: restricted area coverage	People / organization with the needs of low price with fine quality screen printing service, along with variety customization & punctuality of production working time. Demographically: wide area coverage
Value propositions	Provide fine quality screen printing service along with variety customization	Provide low price with fine quality screen printing service, along with variety customization & punctuality of production working time
Channels	<ul style="list-style-type: none"> - Word-of-mouth to relatives - Minimum online marketing activity - Few partnership proposal 	<ul style="list-style-type: none"> - Intense word-of-mouth to the wider network - Intense online marketing activity - Proposals & flyers with calculation of the effectiveness
Customer relationships	<ul style="list-style-type: none"> - Order assistance - Product adjustment - After-sales communication - Product defect replacement 	<ul style="list-style-type: none"> - Order assistance - Product adjustment - After-sales communication - (Diminish/omit product defect)
Revenue streams	Basic order fee supported by economies of scale production	Basic order fee supported by economies of scale production & cost efficiency
Key resources	<ul style="list-style-type: none"> - Physical resources: renting house, machinery & office equipment - Financial resources: relative & financial institution loan - Human resources: ten personnel, use of temporary worker - Intellectual resources: partnership, limited brand awareness, minimum online marketing tool 	<ul style="list-style-type: none"> - Physical resources: low-price renting, latest machinery & office equipment - Financial resources: low rate relative & financial institution loan - Human resources: decrease use of temporary worker, additional marketing personnel - Intellectual resources: partnership, wide brand awareness, comprehensive marketing tool
Key partnerships	<ul style="list-style-type: none"> - Fabric & screen printing inks supplier - Logistic company 	<ul style="list-style-type: none"> - Fabric & screen printing inks supplier with low cost - Logistic company
Cost structure	<ul style="list-style-type: none"> - COGS - Operating expense - Salaries of permanent & temporary worker - Installment 	<ul style="list-style-type: none"> - Low COGS through low raw material price - Low operating expense through low rent cost & tight cost control - Low salaries by decreasing temporary worker & optimizing employee productivity - Low loan rate & installment

4. Conclusion and Implementation Plan

After understanding better about the external and internal situation of AR Vendor, which also supported by simple market research, according to QSPM concept to determining the best alternatives, it can be seen that cost leadership strategy is the most suitable strategy for AR Vendor to reach its superiority. The implementation then can be conducted through immediate, short-term, and long-term program. While immediate program aims to know better about the market and make the system, the short-term program conducted to expand the marketing activities and learning cost

efficiency. Last, the long-term program aims for dealing with the company growth. Here are the suggested of implementation program:

Table 3. Immediate Program Scheduling

Programs	Weeks			
	1	2	3	4
Market survey				
Search low price supplier				
Search low price rent				
Hire additional marketing employee				
Creating fast response system				
Determine raw material effective usage guideline				
Determine tight quality control system				
Determine delivery scheduling system				

Table 4. Short-term Program Scheduling

Programs	Months											
	1	2	3	4	5	6	7	8	9	10	11	12
Determine monthly target marketing & sales												
Devise attractive advertising content												
Increase AR Vendor social media readers												
Participating in events												
Optimize employee learning curve												
Creating reward program												
Employee performance assessment												

Table 5 .Long-term Program Scheduling

Programs	Years				
	1	2	3	4	5
Legalize the company (Making PT)					
Upgrade system					
Research & purchase latest technology					
Search low rate of loan					
Create and extend an official site					
Research about multi-platform business					

References

- Balai Pusat Statistik, n.d., Indeks Harga Konsumen dan Inflasi Bulanan Indonesia, 2005-2013. Available from http://www.bps.go.id/tab_sub/view.php?kat=2&tabel=1&daftar=1&id_subyek=03¬ab=7 [Accessed on 15 January, 2013].
- Balai Pusat Statistik, n.d., Penduduk Indonesia menurut Provinsi 1971, 1980, 1990, 1995, 2000 dan 2010. Available from http://www.bps.go.id/tab_sub/view.php?kat=1&tabel=1&daftar=1&id_subyek=12¬ab=1 [Accessed on 15 January, 2013].
- Bank Indonesia, n.d., Quarterly Gross Domestic Product by Industrial Origin at Constant Price. Available from http://www.bi.go.id/sdds/series/NA/index_NA.asp [Accessed on 5 December, 2012].
- Bank Indonesia, et.al., 2007, Pola Pembiayaan Usaha Kecil Syariah (PPUK-Syariah): Usaha Konveksi Pakaian Jadi, Jakarta, INA: Bank Indonesia.
- Charan, Ram, 2007, Know-How: The 8 Skills That Separate People Who Perform from Those Who Don't, N.p: Crown Publishing Group.

- Hambrick, D.C. & Fredrickson, J.W, 2005, Are you sure you have a strategy? *Academy of Management Executive*, 19(4): 51-62.
- Henry, Anthony E., 2008, *Understanding Strategic Management* (2nd ed.), New York, USA: Oxford.
- Karimuddin, Amir, 2012, MarkPlus Insight: Jumlah Pengguna Internet di Indonesia Capai 61 Juta Orang. Available from <http://dailysocial.net/post/markplus-insight-jumlah-pengguna-internet-di-indonesia-capai-61-juta-orang> [Accessed on 15 January, 2013].
- Osterwalder, A. & Pigneur, Y., 2010, *Business Model Generation*, New Jersey: John Wiley & Sons, Inc.
- Suhendra, Zulfi, 2012, Puluhan Merek Pakaian Kelas Dunia Ternyata Made in Bandung, *Detik Finance*, May 25. Available from <http://finance.detik.com/read/2012/05/25/135749/1924712/1036/puluhan-merek-pakaian-kelas-dunia-ternyata-made-in-bandung> [Accessed on 5 December, 2012].
- Vasconcellos, Jorge A., 2005, *Strategy Moves: 14 Complete Attack and Defense Strategies for Competitive Advantage*, Great Britain: Prentice Hall.
- Wheelen, T.L. & Hunger J.D., 2011, *Strategic Management and Business Policy: Toward Global Sustainability* (13th ed.), New Jersey: Pearson College Division.
- Wikipedia, 2013, Upah Minimum Regional. Available from http://id.wikipedia.org/wiki/Upah_minimum_regional [Accessed on 15 January, 2013].